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TREAS PASS DEFALCO/JUBA

E.O. 12356: DECL:OADR
TAGS: PREL, ETRD, EFIN, IMF, OREP (KENNEDY, EDWARD M.)
SUBJ: SENATOR EDWARD KENNEDY'S VISIT TO BRASILIA

1. (U) SUMMARY. SENATOR EDWARD KENNEDY'S VISIT TO BRASILIA WENT SMOOTHLY AND ACHIEVED THE SENATOR'S PRINCIPAL OBJECTIVES: TO EXPRESS PUBLICLY AND PRIVATELY HIS SUPPORT FOR THE DEMOCRATIC PROCESS IN BRAZIL AND TO DISCUSS THE FOREIGN DEBT, TRADE, AND OTHER ECONOMIC ISSUES WITH GOVERNMENT LEADERS. DURING HIS 9 1/2 HOUR STAY IN BRASILIA, KENNEDY MET FORMALLY WITH PRESIDENT SARNEY, FOREIGN MINISTER SETUBAL, FINANCE MINISTER FUNARO, AND CENTRAL BANK PRESIDENT BRACHER, AND CONGRESSIONAL LEADERS INCLUDING CHAMBER OF DEPUTIES PRESIDENT ULYSSES GUIMARAES. DETAILS OF THESE MEETINGS ARE REPORTED BELOW. AT A DINNER HOSTED BY THE CHARGE, HE ALSO HAD A CHANCE TO CONVERSE WITH SUCH DIVERSE REPRESENTATIVES OF BRAZILIAN SOCIETY AS THE NEWLY ELECTED WORKERS' PARTY (PT) MAYOR OF FORTELEZA MARIA LUIZA FONTENELLE, ARMY MINISTER LEONIDAS PIRES GONCALVES, PLANNING MINISTER JOAO SAYAD, AND ENTERTAINER FA FA DE BELEM. PRESS COVERAGE WAS LAVISH AND GENERALLY FAVORABLE. END SUMMARY.

2. (U) SENATOR KENNEDY'S VIRTUALLY NON-STOP SCHEDULE IN BRASILIA COVERED MUCH OF THE POLITICAL SPECTRUM INCLUDING SENIOR GOVERNMENT OFFICIALS AND MEMBERS OF CONGRESS. ALTHOUGH HE HAD NO FORMAL PRESS CONFERENCE, KENNEDY MADE AN ARRIVAL

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STATEMENT AT BRASILIA AIRPORT IN WHICH HE EXPRESSED STRONG SUPPORT FOR BRAZILIAN DEMOCRACY AND NOTED THE FRIENDLY TIES BETWEEN THE AMERICAN AND BRAZILIAN PEOPLE. AT AN IMPROMPTU Q AND A SESSION WITH THE PRESS FOLLOWING HIS MEETING WITH PRESIDENT SARNEY, HE SAID THAT THERE WERE POLITICAL ELEMENTS TO THE FOREIGN DEBT BURDEN THAT COULD NOT BE IGNORED. HIGHLIGHTS OF KENNEDY'S MEETINGS FOLLOW:

PRESIDENT JOSE SARNEY

3. (C) IN A WARM AND CORDIAL ATMOSPHERE, PRESIDENT SARNEY AND HIS INTERNATIONAL AFFAIRS ADVISER RUBENS RICUPERO MET WITH KENNEDY, HIS TWO SISTERS, AND GREG CRAIG, HIS FOREIGN POLICY ADVISER, FOR 45 MINUTES (30 MINUTES MORE THAN SCHEDULED). THE ONLY EMBASSY OFFICIAL PRESENT WAS FSN PAULO ROLO AS INTERPRTER; HE PROVIDED US THE FOLLOWING REPORT. SARNEY AND KENNEDY FOCUSED ON ECONOMIC QUESTIONS. SARNEY SAID THE MAIN PROBLEM IN BRAZIL WAS IN THE SOCIAL AREA WHICH ONLY ECONOMIC GROWTH COULD ALLEVIATE. ON INFLATION, HE WAS PROUD OF HOLDING THE 1985 LEVEL TO THAT OF THE PREVIOUS TWO YEARS WHILE AT THE SAME TIME ACHIEVING A REAL INCREASE IN INCOME OF 15 PERCENT AND A 7.5 PERCENT GROWTH RATE. THE GOB'S INFLATION TARGET FOR 1986 WAS 160 PERCENT. IN RESPONSE TO KENNEDY'S QUESTION ON DEINDEXATION, HE DOUBTED THAT "DRASTIC" MEASURES WOULD BE NECESSARY AT THIS STAGE.

4. ON THE FOREIGN DEBT, SARNEY SAID THE GOB HANDLED THE ISSUE ON TWO LEVELS: THE TECHNICAL (DISCUSSIONS WITH THE BANKS) AND THE POLITICAL IN WHICH A WIDER VISION WAS NEEDED. THE COUNTRY WAS STRAINING TO MEET OBLIGATIONS, BUT PROTECTIONISM HAS BEEN A REAL PROBLEM AS WELL AS UNCONTROLLED INTEREST RATES. BRAZIL HAD A LARGE TRADE SURPLUS IN 1985 AND WAS IN A BETTER CONDITION THAN OTHER LATIN AMERICAN COUNTRIES. HOWEVER, BRAZIL'S BETTER SITUATION WAS WORTH NOTHING IF BOLIVIA, URUGUAY, PERU, MEXICO, OR ARGENTINA WERE TO BE DESTABLIZED (DUE TO DEBT PROBLEMS).

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5. (C) KENNEDY ASKED ABOUT BRAZIL-ARGENTINE RELATIONS IN LIGHT OF THE RECENT MEETING OF CHIEFS-OF-STATE. SARNEY RESPONDED THAT THE MEETING FURTHERED BRAZIL'S INTEGRATION IN LATIN AMERICA. NOW THAT BRAZIL AND ARGENTINA WERE DEMOCRACIES, HE SAID, IT WAS EASIER TO CONDUCT A MEANINGFUL DIALOGUE. IN HIS VIEW, THE EXCHANGE OF SCIENTIFIC/ TECHNOLOGICAL INFORMATION WILL FORESTALL A COSTLY RACE IN THE NUCLEAR AREA AND WILL BENEFIT NOT ONLY THE TWO COUNTRIES BUT ALSO OTHERS IN LATIN AMERICA. HE REITERATED BRAZIL'S GOALS IN DEVELOPING NUCLEAR ENERGY ARE STRICTLY PEACEFUL IN NATURE.

6. (C) KENNEDY ALSO INQUIRED ABOUT BRAZIL'S ARMS EXPORT POLICIES. SARNEY GAVE A BRIEF HISTORY OF THE BRAZILIAN ARMS INDUSTRY BUT POINTED OUT THAT PRESS REPORTS OF DEALS WITH OTHER COUNTRIES

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ARE SOMETIMES EXAGGERATED. CONCERNING GOB POLICY SARNEY EXPLAINED THAT BRAZIL WILL NOT SELL ARMS TO COUNTRIES (A) WITH WHICH IT DOES NOT HAVE DIPLOMATIC RELATIONS, (B) WHICH ARE ENGAGED IN CONFLICT, AND (C) WHICH REPRESENT SOME RISK TO INTERNATIONAL STABILITY. (COMMENT: THE LAST POINT IS NEW TO US. IT MAY HAVE JUST BEEN A SLIP OF THE TONGUE. HOWEVER, SINCE AMBASSADOR RICUPERO'S MEMCON, WHICH HE SENT TO US AS A COURTESY, DID NOT REPEAT DID NOT INCLUDE THIS POINT.)

FOREIGN MINISTER OLAVO SETUBAL

7. (C) SETUBAL, ACCOMPANIED BY HIS CHIEF OF CABINET AND TWO OTHER STAFFERS EXPLAINED TO KENNEDY THAT HE SPENT AT LEAST HALF OF HIS TIME ON ECONOMIC QUESTIONS, ESPECIALLY TRADE QUESTIONS. ON FOREIGN DEBT NEGOTIATIONS, HE SAID HE WAS NOT VERY CONCERNED SINCE BRAZIL WITH ITS LARGE TRADE SURPLUS COULD MAINTAIN ITS PAYMENTS AND A REASONABLE LEVEL OF LIQUIDITY. HE THOUGHT THE GOB WOULD TAKE ITS TIME IN NEGOTIATIONS WITH THE IMF. HE DIDN'T SEE MAJOR PROBLEMS IN TALKS WITH THE PRIVATE BANKS. BRAZIL, HE POINTED OUT, WAS MORE FORTUNATE THAN ITS NEIGHBORS IN HAVING AN INDUSTRIALIZED AND DIVERSIFIED ECONOMY NOT DEPENDENT ON THE EXPORT OF COMMODITIES. HE NOTED THAT OF 18 MAJOR COMMODITIES, ALL BUT ONE WERE AT THEIR LOW POINTS; ONLY COFFEE WAS FIRM WHICH OF COURSE BENEFITS BRAZIL. BASIC PRODUCT PRICES WILL REMAIN LOW, HE THOUGHT BECAUSE OF CHANGES IN CONSUMPTION HABITS AND TECHNOLOGY. SETUBAL'S PRINCIPAL ECONOMIC CONCERN WAS INFLATION WHICH HE THOUGHT WAS A MUCH MORE DIFFICULT PROBLEM TO MANAGE THAN THE DEBT.

8. (C) KENNEDY AND SETUBAL DEBATED THE ISSUE OF PROTECTIONISM. SETUBAL RAISED THE SUBJECT BY NOTING BRAZILIAN CONCERN ABOUT PROTECTIONIST SENTIMENT IN THE U.S. CONGRESS. KENNEDY RESPONDED BY EXPLAINING THAT HISTORICALLY PROTECTIONIST ATTITUDES INCREASE DURING PERIODS OF HIGH UNEMPLOYMENT. HE NOTED THAT THE SHOE AND TEXTILE INDUSTRIES HAVE BEEN HURT BY THE STRONG U.S. DOLLAR, THAT U.S. AGRICULTURE WAS IN A DEPRESSION, AND THAT IT WAS HARD TO RETRAIN OLD WORKERS. HE THEN RAISED THE CONCERN ABOUT BRAZILIAN PROTECTIONISM, SAYING THAT HIS CONSTITUENTS BELIEVE BRAZIL WANTS IT BOTH WAYS, I.E., A MORE OPEN AMERICAN MARKET TO BRAZILIAN GOODS WHILE MAINTAINING A MORE RESTRICTIVE BRAZILIAN MARKET TO U.S. PRODUCTS. KENNEDY SAID THAT MASSACHUSETTS COMPUTER COMPANIES WERE AFFECTED BY THE INFORMATICS MARKET RESERVE LAW. SETUBAL REPLIED THAT THE LAW DOES NOT AFFECT THE PURCHASES

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OF LARGE OR MEDIUM COMPUTERS WHICH ARE BEING IMPORTED IN INCREASING QUANTITIES. THE LAST FEW YEARS HAVE BEEN VERY PROFITABLE FOR IBM, HE STATED. THE SOFTWARE ISSUE, HE ACKNOWLEDGED, WAS A VERY COMPLEX ONE AND IS STILL BEING WORKED OUT WITHIN THE GOB.

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9. (C) KENNEDY ASKED SETUBAL ABOUT RELATIONS WITH CHILE. SETUBAL THOUGHT THE PRINCIPAL PROBLEM WAS PINOCHET, HIMSELF, DESCRIBING HIM AS "A STRONG-WILLED FANATIC." SETUBAL DID NOT FORESEE DRAMATIC POLITICAL CHANGES UNTIL THE 1988 ELECTIONS.

10. (C) THE TWO ALSO BRIEFLY DISCUSSED CENTRAL AMERICA WHICH WAS REPORTED IN BRASILIA 344.

FINANCE MINISTER DILSON FUNARO

11. (C) SENATOR KENNEDY CALLED ON FINANCE MINISTER DILSON FUNARO, WHO WAS ACCOMPANIED BY CENTRAL BANK PRESIDENT, FERNAO BRACHER. FUNARO ARGUED THAT BRAZIL COULD NOT CONTINUE PAYING ITS DEBT AT THE CURRENT TERMS; NEW ARRANGEMENTS MUST BE MADE. SENATOR KENNEDY OBSERVED THAT WHILE DEBT IS AN ECONOMIC ISSUE, IT IS ALSO A POLITICAL ISSUE AND SHOULD BE DEALT WITH IN A BROAD POLITICAL CONTEXT. IT IS IN THE U.S. INTEREST TO FACILITATE BRAZIL'S EFFORTS TO HANDLE ITS DEBT.

12. (C) WHEN THE SENATOR INQUIRED ABOUT BRAZIL'S VIEWS ON THE CARTAGENA GROUP, FUNARO REASSURED HIM THAT BRAZIL WOULD NOT JOIN DEBT CARTEL BUT IT WAS EQUALLY OPPOSED TO A "CREDITORS CARTEL", WHICH HE TERMED THE CURRENT SITUATION. DEBTOR COUNTRIES WERE IN DIFFERENT CIRCUMSTANCES, HAD DIFFERENT CAPABILITIES, AND THEREFORE SHOULD BE TREATED DIFFERENTLY. WHAT WAS NECESSARY FOR PERU, FOR INSTANCE, BRAZIL -- BECAUSE OF ITS BETTER CURRENT CIRCUMSTANCES -- MIGHT NOT NEED.

13. (C) SENATOR KENNEDY INQUIRED ABOUT THE DANGER OF FURTHER INCREASES IN BRAZIL'S ALREADY HIGH RATE OF INFLATION. FUNARO REPLIED CONFIDENTLY THAT THE GOB WOULD NOT LET INFLATION WORSEN. HE ADDED, HOWEVER, THAT BRAZIL'S EXTERNAL SITUATION IMPACTED ON ITS DOMESTIC INFLATION. FOR INSTANCE, IF INTERNATIONAL INTEREST RATES WOULD COME DOWN BY TWO POINTS AND, THUS APPROACH THEIR HISTORICAL REAL LEVELS, THE GOB'S FISCAL DEFICIT WOULD BE ELIMINATED. FUNARO EXPLAINED THAT THIS WAS THE CASE BECAUSE A LARGE PORTION OF THE DEFICITS OF THE STATE ENTERPRISES CONSISTED OF SERVICE ON THEIR FOREIGN DEBT. FUNARO POINTED TO USG POLICY, PARTICULARLY ITS LARGE DEFICITS, AS CONTRIBUTING IMPORTANTLY TO HIGH INTEREST RATES. SENATOR KENNEDY AGREED. THE FINANCE MINISTER ALSO OBSERVED THAT BRAZIL'S LARGE FOREIGN TRADE SURPLUS, WHICH IS ESSENTIAL TO THE COUNTRY'S ABILITY TO PAY INTEREST ON THE DEBT, PUMPS CRUZEIROS INTO THE ECONOMY, CONTRIBUTING TO INFLATIONARY PRESSURES.

14. (C) ASKED ABOUT RELATIONS WITH THE PARIS CLUB IN LIGHT OF BRAZIL'S FAILURE TO PAY INTEREST OR AMORTIZATION TO ANY OFFICIAL CREDITORS (WITH THE EXCEPTION OF CCC) FOR TWO YEARS, CENTRAL BANK PRESIDENT BRACHER ASSERTED AGGRESSIVELY THAT THERE ARE MAJOR MISAPPREHENSIONS ON THIS ISSUE. BRAZIL IS MERELY FOLLOWING THE AGREEMENT REACHED WITH THE PARIS CLUB IN 1984. THE GOB, HE SAID, IS READY TO TALK WITH THE PARIS CLUB AT ANY TIME WITHOUT CONDITIONS, BUT THE PARIS CLUB MEMBERS HAVE NOT

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WISHED TO DO SO.

15 (C) AFTER MINISTER FUNARO AND SENATOR KENNEDY STEPPED OUT OF THE ROOM FOR A PRIVATE CHAT, BRACHER COMMENTED ON RELATIONS WITH THE IMF. THE CENTRAL BANK PRESIDENT AVERRED THAT THE ECONOMIC PACKAGE PROPOSED BY PRESIDENT SARNEY AND APPROVED BY THE CONGRESS IN DECEMBER WAS JUST WHAT THE FUND WANTED. OF COURSE, THE GOB COULD NOT ADMIT THAT, HE SAID, OR THE CONGRESS WOULD NOT HAVE APPROVED IT. THE BARBS FUNARO AND THE GOB ECONOMIC POLICY MAKERS HURLED AT THE IMF SHOULD BE SEEN IN THIS LIGHT; THEY ARE POLITICAL COVER FOR A PROGRAM THE FUND SHOULD LIKE. IMF OFFICIALS SHOULD NOT BE AS THIN-SKINNED AS THEY SOMETIMES APPEAR TO BE. "DO THEY WANT NICE WORDS OR A GOOD PROGRAM?" BRACHER ASKED RHETORICALLY. BRACHER EVINCED OPTIMISM ABOUT HIS AND FUNARO'S MEETING WITH DE LA ROSIERE THE FOLLOWING DAY.

17. (C) ASKED ABOUT THE GOB HANDLING OF OBLIGATIONS TO FOREIGN BANKS OF THE THREE BRAZILIAN BANKS LIQUIDATED IN NOVEMBER, BRACHER AGREED THAT THE GOB WOULD NOT COVER OBLIGATIONS WHICH WERE PURELY COMMERCIAL DEALS BETWEEN BANKS. THE FOREIGN BANKS COULD HAVE LENT MONEY AT A LOWER SPREAD AND RECEIVED GOB GUARANTEES. THEY CHOSE TO SEEK A HIGHER SPREAD WITHOUT THE GUARANTEES. THEY TOOK THE RISK AND LOST. THE CENTRAL BANK PRESIDENT COMMENTED THAT IT IS INCONSISTENT FOR THE BANKERS TO SUPPORT IMF EFFORTS TO FORCE THE GOB TO ELIMINATE ITS BUDGET DEFICIT AND THEN TO DEMAND THE GOB USE PUBLIC FUNDS TO COVER SIZABLE PRIVATE OBLIGATIONS. IT IS ALSO IMPOSSIBLE FOR THE GOB TO PAY FOREIGN CREDITORS WHILE REFUSING TO PAY DOMESTIC CREDITORS.

CONGRESSIONAL LEADERSHIP

17. (LOU) AT THE CONGRESS, SENATOR KENNEDY MET WITH THE ACTING PRESIDENT OF THE SENATE, MARCONDES GADELHA (PFL-PARAIBA), AND FIVE OTHER SENATORS REPRESENTING THE THREE PARTIES IN THE SENATE AND THEN WITH THE PRESIDENT OF THE CHAMBER OF DEPUTIES, ULYSSES GUIMARAES (PMDB-SAO PAULO), THE CHAMBER'S FIRST SECRETARY, HAROLDO SANFORD (PDS-CEARA), AND THE LEADERS OF THE PDS, PDT AND PT. IN BOTH SESSIONS THE PRINCIPAL TOPIC WAS CHANGING FROM A PRESIDENTIAL TO A PARLIAMENTARY SYSTEM WHEN BRAZIL ADOPTS A NEW CONSTITUTION NEXT YEAR. A PARLIAMENTARY SYSTEM WAS FAVORED BY MOST REPRESENTATIVES IN BOTH CHAMBERS WITHOUT PARTY DISTINCTION AS ASSURING THE CONGRESS A LARGER ROLE IN GOVERNING THE COUNTRY AND PROVIDING MORE STABILITY IN GOVERNMENT (I.E., REDUCING THE RISK OF GOLPES). SOME, HOWEVER, FAVORED A PRESIDENTIAL SYSTEM. IN THE CHAMBER THE PT DEPUTY EDUARDO MATARAZZO SUPPLY, THE PT CANDIDATE FOR MAYOR OF SAO PAULO, CRITICIZED THE WEAKNESS OF U.S. POLICY AGAINST APARTHEID IN SOUTH AFRICA. MOST NOTEWORTHY WAS THE FAILURE OF THE BRAZILIANS TO ARGUE OR EVEN RAISE WITH SENATOR KENNEDY THE ECONOMIC ISSUES -- FOREIGN DEBT AND TRADE PROTECTIONISM -- THAT THEY SO OFTEN SPEAK ABOUT ON THE FLOOR OF CONGRESS.

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18. (U) KENNEDY RECEIVED EXTENSIVE FRONT PAGE AND TV NETWORK COVERAGE OF HIS STAY IN BRASILIA, ALL OF IT FACTUAL AND POSITIVE. THE WORKING PRESS DID NOT EVEN SEEM TO MIND THE STRONG PRESENCE OF SECURITY AGENTS, AN ISSUE THEY NORMALLY ENJOY GRUMBLING ABOUT. KENNEDY'S FOREIGN POLICY ADVISER,

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GREG CRAIG, GAVE A BACKGROUND BRIEFING AT THE EMBASSY. SURPRISINGLY IN NEITHER THIS MEETING, NOR IN KENNEDY'S BRIEF ENCOUNTERS WITH REPORTERS DURING THE DAY, DID THE QUESTION OF U.S. PROTECTIONISM ARISE.

19. (C) COMMENT. KENNEDY HANDLED HIMSELF WELL AT THE MEETINGS, ALTHOUGH HE WAS VISIBLY TIRED FROM THE OVERNIGHT FLIGHT TO BRAZIL. PARTICULARLY HELPFUL WERE HIS REBUTTALS TO CHARGES OF U.S. PROTECTIONISM. HIS RESPONSE TO SETUBAL'S INQUIRY ON U.S. PROTECTIONISM WAS ON THE MARK. AND DURING THE DINNER, KENNEDY TOLD DEPUTY PRATINI DE MORAES (PDS) FROM THE SHOE MANUFACTURING STATE OF RIO GRANDE DO SUL THAT IF BRAZIL WANTED TO EXPORT SHOES TO THE U.S., IT SHOULD ALLOW THE U.S. TO EXPORT COMPUTERS TO BRAZIL.

20. (LOU) THE KENNEDY NAME IS STILL MAGIC HERE AND IT DREW AN ESPECIALLY DISTINGUISHED ASSEMBLAGE OF GUESTS TO THE CHARGE'S DINNER, ALL THE MORE IMPRESSIVE SINCE IT TOOK PLACE DURING THE CHRISTMAS/NEW YEAR'S HOLIDAYS WHEN MOST IMPORTANT BRAZILIANS ARE OUT OF TOWN. WE WOULD RATE THE VISIT TO BRASILIA AS A SUCCESS FOR KENNEDY AND FOR U.S.-BRAZILIAN RELATIONS.

WATSON

END OF MESSAGE

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